

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**ADMINISTRATIVE LEAD TIME AT THE
PROCUREMENT LAW DIVISION, ARMY AVIATION
AND TROOP COMMAND**

Report No. 94-102

May 17, 1994

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Acronyms

AMCCOM	Army Armament, Munitions, and Chemical Command
ATCOM	Army Aviation and Troop Command
CECOM	Army Communications-Electronics Command
MICOM	Army Missile Command
TACOM	Army Tank-Automotive Command



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

May 17, 1994

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

**SUBJECT: Audit Report on Administrative Lead Time at the Procurement Law
Division, Army Aviation and Troop Command (Report No. 94-102)**

We are providing this report for your review and comment. This is the first in a series of reports on administrative lead time for contracts at DoD inventory control points. This report addresses administrative lead time associated with the Procurement Law Division review of contract actions for the Army Aviation and Troop Command.

DoD Directive 7650.3, requires that all audit recommendations be resolved promptly. The Commander, Aviation and Troop Command, Army Materiel Command, did not comment on a draft of this report. Therefore, we request comments on the unresolved recommendations and monetary benefits by July 15, 1994.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Ms. Patricia A. Brannin, Audit Program Director, at (703) 692-3206 (DSN 222-3206) or Ms. Macie J. Rubin, Audit Project Manager, at (703) 692-3222 (DSN 222-3222). See Appendix E for the distribution of the report. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-102
(Project No. 3CD-0043)

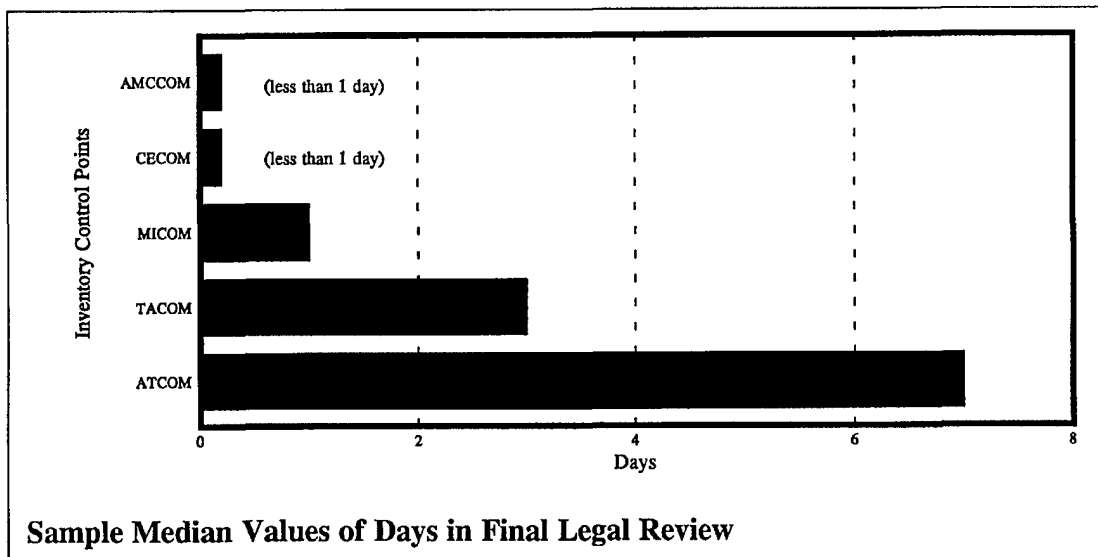
May 17, 1994

ADMINISTRATIVE LEAD TIME AT THE PROCUREMENT LAW DIVISION, ARMY AVIATION AND TROOP COMMAND

EXECUTIVE SUMMARY

Introduction. This is the first in a series of reports on administrative lead time at DoD inventory control points. Administrative lead time is the period from the first identification of the item reorder requirement until the award of the contract. Keeping administrative lead time to a minimum reduces inventory and frees DoD funds for other uses. This report addresses the Procurement Law Division final legal review process for contract actions at the Army Aviation and Troop Command, Army Materiel Command. The Army requires a final legal review as part of the contracting officer award procedures for all contracts of \$100,000 or more. Between July 1, 1992, and June 30, 1993, the Army Aviation and Troop Command awarded 211 contracts for \$100,000 or more, excluding contract modifications and delivery orders, for a total of \$775 million.

Audit Results. As shown in the figure below, the Procurement Law Division, Army Aviation and Troop Command, took significantly longer to review contract actions than did procurement law divisions at other Army inventory control points. The Army Aviation and Troop Command could reduce administrative lead time for contracts of \$100,000 or more by at least 6 days, potentially avoiding a cost of at least \$2.2 million for spare parts inventory.



In addition to the Aviation and Troop Command (shown on the figure as ATCOM), we reviewed the Armament, Munitions, and Chemical Command (AMCCOM), the Communications-Electronics Command (CECOM), the Missile Command (MICOM), and the Tank-Automotive Command (TACOM).

Objectives. The primary audit objective was to determine whether measures were in place to monitor and, where appropriate, reduce administrative lead time for contract actions. This report addresses the portion of the administrative lead time affected by the final legal review of contract actions. We also evaluated the internal controls established for the final legal review process and the adequacy of management's implementation of the DoD Internal Management Control Program for monitoring contract actions. Subsequent reports will address administrative lead time at the 16 DoD inventory control points, including the Army inventory control points, and actions needed to improve administrative lead time.

Internal Controls. Sufficient internal controls were not in place to ensure timely reviews of contract actions. We consider this a material internal control weakness at the Army Aviation and Troop Command. See Part I for details of our review of internal controls and Part II for details of the weakness.

Potential Benefits. The implementation of the recommendations may result in a one-time \$2.2 million put to better use by reducing inventory requirements that are calculated assuming the 6 days of administrative lead time. See Appendix C for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Commander, Army Aviation and Troop Command, establish controls to monitor the final legal review process for contract actions and establish and implement a performance measurement system for the Procurement Law Division.

Management Comments. The Commander, Army Aviation and Troop Command, Army Materiel Command, did not comment on a draft of this report. We request written comments by July 15, 1994.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Part I - Introduction

Introduction

Background

This is the first in a series of reports on administrative lead time for contracts at DoD inventory control points. This report addresses the final contract review process for contract actions by the Procurement Law Division, Army Aviation and Troop Command (ATCOM), Army Materiel Command.

Materiel Management by DoD Inventory Control Points. Inventory control points in each Military Department and the Defense Logistics Agency have primary responsibility for material management within DoD. To properly manage inventory items, the inventory control points forecast when to reorder inventoried items to meet the needs of the users of those items.

Administrative Lead Time as a Management Tool. Administrative lead time is one factor used to forecast when to reorder inventoried items. Administrative lead time is the period from the first identification of the item reorder requirement until the award of the contract. Longer lead times require more resources to maintain inventory levels. Administrative lead time accrues in various departments within the inventory control points, including inventory management offices, contracting organizations, and procurement law divisions.

Impact of Administrative Lead Time on Inventory Safety Levels. In 1989, the Assistant Secretary of Defense (Production and Logistics), now within the office of the Under Secretary of Defense (Acquisition and Technology), conducted a study of consumable and repairable items at wholesale inventory control points. The 1989 study revealed that, as the number of days of lead time decreases, the number of days of safety level decreases proportionally (a one-to-eight ratio). Therefore, for every 8 days that lead time is reduced, the safety level is reduced by 1 day. Safety level represents the amount of inventory required to permit continued operations when minor interruptions of normal replenishment occur.

Procurement Law Division Legal Review Requirements. The Army requires all contract actions and contract modifications with an actual or estimated value of \$100,000 or more be reviewed by the local installation's procurement law division; however, the Army does not have formally established standards and goals for contract legal reviews. Between July 1, 1992, and June 30, 1993, ATCOM awarded 211 contracts (excluding contract modifications and delivery orders), totaling \$775 million, that received legal review. For those actions, the Procurement Law Division, ATCOM, reviewed acquisition plans, justifications and approvals, solicitations, and business clearance memorandums and conducted one final legal review before contract award. However, only data on

the time to perform the final legal review were available for complete analysis. Therefore, this report discusses the final legal review that the Procurement Law Division, ATCOM, conducted just before contract award.

Objectives

The primary audit objective was to determine whether appropriate measures were in place to monitor and, where appropriate, reduce administrative lead time of contract actions. This report addresses that portion of the administrative lead time affected by the final legal review before award of contract actions. We also evaluated the internal controls established for monitoring the time required for the final legal review. Subsequent reports will address administrative lead time at the 16 DoD inventory control points including five Army inventory control points and actions needed to improve administrative lead time.

Scope and Methodology

Audit Locations. We reviewed the time taken to complete the final legal review of contract actions by procurement law divisions at five Army inventory control points: Armament, Munitions, and Chemical Command (AMCCOM); ATCOM; Communications-Electronics Command (CECOM); Missile Command (MICOM); and Tank-Automotive Command (TACOM). See Appendix D for a complete list of organizations visited or contacted.

Universe and Sample. We sampled from a universe of 1,026 contracts, valued at \$1.9 billion, awarded by the five Army inventory control points. Of the \$1.9 billion universe, ATCOM awarded \$775 million. The universe included contract actions of \$100,000 or more, awarded from July 1, 1992, through June 30, 1993. The universe excluded contract modifications and delivery orders awarded during this time period. We randomly sampled 15 contracts valued at \$100,000 or more at each of the five Army inventory control points, for a total of 75 contracts, valued at \$108.5 million. Appendix A lists the sampled contracts.

Statistical Projection Estimates. Statistical projections were based on median values as units of measure for testing whether ATCOM took significantly more days for legal review than other Army inventory control points. Appendix B explains the statistical projection and the method used to calculate the median values.

Introduction

Data Reviewed. We examined the time taken to perform the final legal review of documentation associated with each contract award. In addition, we interviewed attorneys, contracting officers, contract specialists, and item managers. We also analyzed management reports used to monitor contract actions. We were unable to obtain documentation concerning the final legal review process on 5 of the 75 contracts sampled. For the statistical analyses performed, the sample sizes were reduced by the number of missing data items.

Use of Technical Staff. Analysts from the Quantitative Methods Division, Audit Planning and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, assisted in this audit. Analysts helped formulate a statistical sampling plan and computed statistical projections. Based on the audit results, the analysts estimated the difference in final legal review time of contract actions.

Audit Period and Standards. We performed this economy and efficiency audit from March 1993 through April 1994. The audit was performed according to auditing standards issued by the Comptroller General of the United States as carried out by the Inspector General, DoD. Accordingly, we included tests of internal controls as were considered necessary.

Internal Controls

Internal Controls Reviewed. We reviewed the internal controls established for monitoring the processing of contract actions at ATCOM. The audit identified a material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not sufficient to ensure that contract actions were evaluated in a timely manner. We consider this to be a material weakness at ATCOM because of the longer final legal review time at ATCOM compared with other Army inventory control points and because of the significant cost per day of this lead time.

Internal Control Weakness Identified. ATCOM implementation of the DoD Internal Management Control Program did not identify administrative lead time as an assessable unit. ATCOM included the time to perform the final legal review process as part of administrative lead time, however, it was not individually identified and monitored. Therefore, the material internal control weakness could not have been identified. Recommendation 1. in this report, if implemented, will correct the weakness. We calculated \$2.2 million of funds that could be put to better use by implementing the recommendations. See Appendix C for a summary of potential benefits. A copy of the report will be provided to the senior official responsible for internal controls in the Department of the Army.

Prior Audits and Other Reviews

No audits on the length of legal reviews of contract actions were conducted in the past 5 years.

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Part II - Finding and Recommendations

Length of Final Legal Reviews of Contract Actions

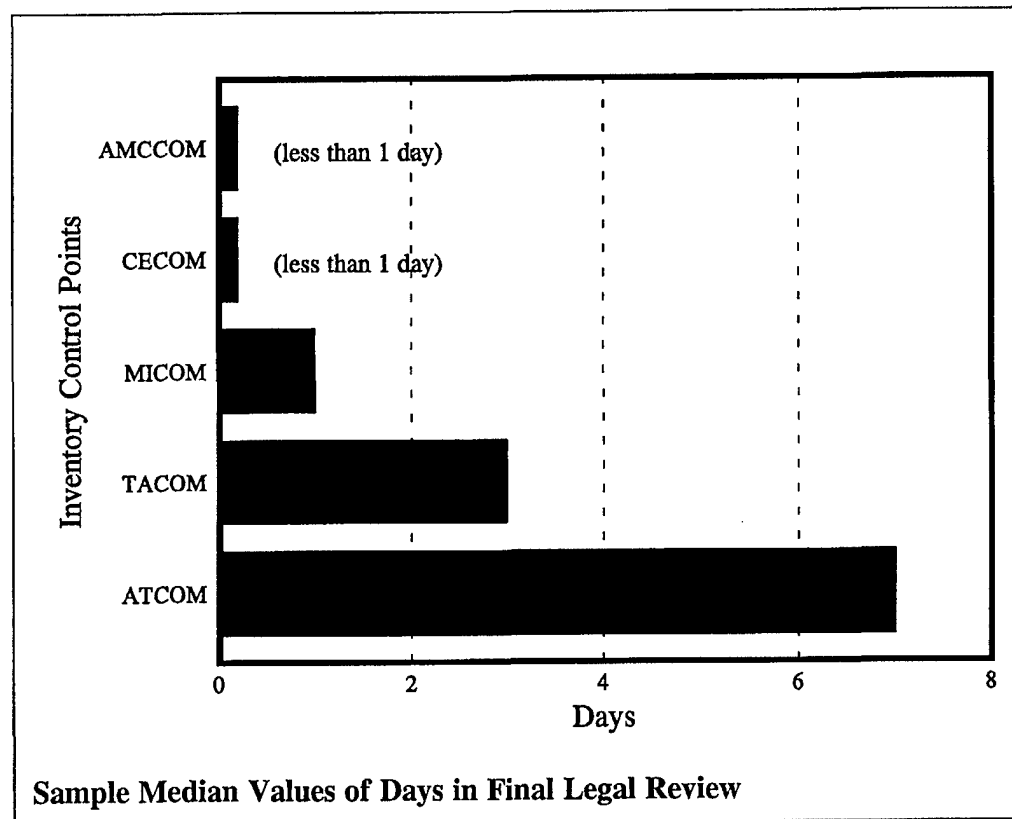
The Procurement Law Division, ATCOM, took significantly longer to perform final legal reviews of contract actions than other Army inventory control points procurement law divisions. The longer review time occurred because ATCOM management did not monitor the final legal review time for contract actions. Therefore, ATCOM management was unaware of the excess time spent reviewing contract actions. As a result, the final legal review process at ATCOM increased administrative lead time, at a cost of \$362,500 per day. Based on final legal review times at other Army inventory control points, we calculated that the final legal review process at ATCOM could be reduced by 6 days. If ATCOM could reduce the lead time by 6 days, a one-time reduction in spare parts procurements of at least \$2.2 million would result.

Legal Review Time

Contract actions reviewed indicated a significant difference between ATCOM and the other Army inventory control points in terms of the number of days required for final legal review of contract actions. Our projections showed about a 6-day gap in median point estimates between the length of final legal reviews by the Procurement Law Division, ATCOM, and the length of final legal reviews by the other four Army inventory control points. The median point estimate represented the statistically most appropriate single estimated value of differences in the final legal review process for the universe of contract actions at ATCOM and the other four inventory control points.

The following figure shows median values for the five inventory control points. These data clearly demonstrate the potential for improvement in the ATCOM final legal review process.

Length of Final Legal Reviews of Contract Actions



Accountability of Legal Review Time

Monitoring Contract Actions at ATCOM. ATCOM management had a system to monitor the progress of contract actions through the acquisition process. This system also recorded the time to process each contract action. However, ATCOM management did not monitor the progress of contract actions in the Procurement Law Division, ATCOM. As a result, ATCOM management was not aware of the actual time a contract action was in the Procurement Law Division.

Procurement Law Division Performance Standards. Although the Army had no official standards for final legal review of contract actions, some Army

Length of Final Legal Reviews of Contract Actions

inventory control point procurement law divisions set goals or standards for performing contract reviews. ATCOM, however, did not set goals or standards.

Performance Standards at ATCOM. The Procurement Law Division, ATCOM, did not have performance standards to provide goals in performing contract reviews. If the Procurement Law Division, ATCOM, had established performance standards, the Procurement Law Division management could have monitored the time spent to perform contract action reviews and could have taken corrective actions to improve the process and reduce administrative lead time.

Performance Standards at Another Army Inventory Control Point. The Procurement Law Division, Army Armament, Munitions, and Chemical Command, management set a standard of 8 hours to perform final legal review of contract actions. For all of the contracts we sampled at the Army Armament, Munitions, and Chemical Command, the Procurement Law Division met the 8-hour goal.

Legal Resources at Procurement Law Divisions. We considered the number of attorneys assigned and contract action workload at each office. For example, ATCOM had 20 attorneys assigned to its Procurement Law Division. During the audit period, the 20 attorneys reviewed 211 contract actions of \$100,000 or more. TACOM had 16 attorneys in its Procurement Law Division that, during the same time period, reviewed 404 contract actions of \$100,000 or more. The table compares procurement law division staffing, workload, and review time at the five procurement law divisions. This comparison shows that the other four procurement law divisions reviewed contract actions in a more timely manner than ATCOM.

Comparison of Staffing, Workload, and Review Time at the Procurement Law Divisions			
<u>Command</u>	<u>Number of Attorneys</u>	<u>Number of Contracts Reviewed</u>	<u>Median Value (days)</u>
ATCOM	20	211	7
TACOM	16	404	3
MICOM	19	79	1
AMCCOM	10	244	less than 1
CECOM	13	88	less than 1

Similarities in Procurement Law Division Workload. We recognize that each inventory control point supported substantially different major end items. However, we found no discernible difference in contract actions or the final legal review process for consumables and repairable items.

Potential Monetary Benefits

Army Calculated Cost Per Day of Administrative Lead Time. Army Materiel Command calculated that 1 day of administrative lead time for ATCOM cost \$2.9 million. This cost per day was the cost of inventory needed to meet requirements during the administrative lead time period. Army Materiel Command calculated administrative lead time costs using FY 1993 budget data. Lead time costs were calculated using dollar-weighted averages for consumable and repairable items.

Benefits of Reducing Administrative Lead Time. Potential monetary benefits are based on the Procurement Law Division, ATCOM, performing at a level equal to that of the four other inventory control points. We estimated a 6-day savings in administrative lead time by comparing ATCOM with the four other inventory control points. A one-time cost avoidance of at least \$2.2 million (6 days x \$2.9 million per day / 8 days of inventory safety levels) could be achieved by reducing inventory levels that were calculated based on historical administrative lead times.

Recommendations for Corrective Action

We recommend that the Commander, Army Aviation and Troop Command, Army Materiel Command:

1. Establish procedures to monitor the final legal review process for contract actions within the Procurement Law Division.
2. Establish and implement a performance measurement system for final review of contract actions within the Procurement Law Division that:
 - a. Assesses the Procurement Law Division objectives and goals for contract action final reviews, and
 - b. Establishes time frames for accomplishing contract action final reviews.

Management Comments

The Commander, Aviation and Troop Command, Army Materiel Command, did not respond to the draft of this report in time for comments to be incorporated in the final report. If comments are received, we will consider them as comments to the final report. Otherwise, we request comments to the final report by July 15, 1994.

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Part III - Additional Information

Appendix A. Sampled Contracts at Army Inventory Control Points

<u>Contract</u>	<u>Range of Days in Final Legal Review</u>
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Aviation and Troop Command

DAAJ 09-92-C-0942	Same Day
DAAK01-93-C-0080	Same Day
DAAK01-93-C-0005	1
DAAK01-93-C-0061	1
DAAK01-93-F-0002	5
DAAJ 09-93-C-0077	6
DAAJ 09-93-C-0321	6
DAAJ 09-93-C-0103	7
DAAJ 09-93-C-0323	8
DAAJ 09-92-C-0729	13
DAAJ 09-92-C-0766	14
DAAJ 09-93-C-0182	16
DAAJ 09-93-C-0336	16
DAAJ 09-92-C-0663	25
DAAJ 09-93-C-0226	41

Armament, Munitions, and Chemical Command

DAAA09-92-C-0741	Same Day
DAAA09-92-C-0752	Same Day
DAAA09-93-C-0017	Same Day
DAAA09-93-C-0117	Same Day
DAAA09-93-C-0032	Same Day
DAAA09-92-C-0657	Same Day
DAAA09-92-C-0807	Same Day
DAAA09-93-C-0260	Same Day
DAAA09-93-C-0129	Same Day
DAAA09-93-C-0263	Same Day
DAAA09-93-C-0152	Same Day
DAAA09-93-C-0143	1
DAAA09-93-C-0162	1
DAAA09-93-C-0113	1
DAAA09-93-C-0300	Data Not Available

Appendix A. Sampled Contracts at Army Inventory Control Points

<u>Contract</u>	<u>Range of Days in Final Legal Review</u>
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Communications-Electronics Command

DAAB07-92-C-D028	Same Day
DAAB07-92-C-D265	Same Day
DAAB07-92-C-D285	Same Day
DAAB07-92-C-H673	Same Day
DAAB07-92-C-M221	Same Day
DAAB07-92-C-R223	Same Day
DAAB07-93-C-R301	Same Day
DAAB07-93-C-G502	Same Day
DAAB07-93-C-M751	Same Day
DAAB07-93-C-P753	Same Day
DAAB07-93-C-Q251	Same Day
DAAB07-92-C-R693	1
DAAB07-93-C-M404	1
DAAB07-92-C-G752	2
DAAB07-93-C-P618	3

Missile Command

DAAH01-92-C-0407	Same Day
DAAH01-93-C-0208	Same Day
DAAH01-93-C-0024	Same Day
DAAH01-92-C-0462	Same Day
DAAH01-92-C-0339	1
DAAH01-93-C-0247	1
DAAH01-93-C-0251	1
DAAH01-93-C-0262	1
DAAH01-92-C-0438	3
DAAH01-93-C-0180	3
DAAH01-93-C-0192	3
DAAH01-92-C-0282	4
DAAH01-92-C-0328	6
DAAH01-92-C-0397	7
DAAH01-93-C-0202	Data Not Available

Appendix A. Sampled Contracts at Army Inventory Control Points

<u>Contract</u>	<u>Range of Days in Final Legal Review</u>
<u>Tank-Automotive Command</u>	
DAAE07-92-C-0728	Same Day
DAAE07-93-C-0999	Same Day
DAAE07-93-C-0415	Same Day
DAAE07-93-C-0627	1
DAAE07-93-C-0622	3
DAAE07-92-C-0810	3
DAAE07-92-C-0878	3
DAAE07-93-C-0032	4
DAAE07-92-C-0754	6
DAAE07-93-C-0238	7
DAAE07-92-C-0710	7
DAAE07-92-C-0953	8
DAAE07-93-C-0468	Data Not Available
DAAE07-92-C-0772	Data Not Available
DAAE07-93-C-0014	Data Not Available

Appendix B. Statistical Sampling Projection Methodology

Background. A statistical test using median values was performed to compare the time taken for the final legal reviews at five Army inventory control points. ATCOM was evaluated with four other Army commands: AMCCOM, CECOM, MICOM, and TACOM. The purpose of this test was to discover significant differences between legal review methods in terms of time required.

Sample Selection. Information was collected for each of the five inventory control points from the sampled contracts of \$100,000 or more. While Army contracts were stratified into three dollar groups, only the group of contracts \$100,000 or more was analyzed here, because only contracts \$100,000 or more require legal review. A random sample of 15 contracts was selected from each Army inventory control point. For the statistical analyses performed, the sample sizes were reduced by the number of missing data items. These contracts were awarded from July 1, 1992, through June 30, 1993.

Statistical Analysis and Units of Measure. Findings from the samples indicated a significant difference between ATCOM and the other Army inventory control points in terms of number of days required for final legal review. Statistical analysis revealed about a 6-day difference in medians between ATCOM and the other inventory control points. With this disparity in the sample, statistical methods were needed to project any significant differences in the populations from the sample results.

The median values of legal review time were chosen as units of measure for testing whether ATCOM takes significantly more days for final legal review than other inventory control points. Because TACOM was closest to ATCOM, any significant differences found between the two inventory control points allowed us to conclude significant differences also between ATCOM and the other three inventory control points. Furthermore, the median was a better indicator of central tendency because days for final legal review could not be assumed to be independent and identically distributed across the number of contracts.

Mann-Whitney U Statistic Test. The difference between the ATCOM and TACOM samples was analyzed by a non-parametric method, the Mann-Whitney U statistic test (the Test). The Test examined two random samples for whether the samples came from similar populations without predetermined understanding of population distributions.

Appendix B. Statistical Sampling Projection Methodology

Sample Projection and Confidence Level. A one-sided hypothesis test at the .05 significance level was applied to evaluate the Test. The Test results were statistically significant. Therefore, Procurement Law Division, ATCOM, took significantly more days for final legal review than procurement law divisions at the other four Army inventory control points.

A potential clearly exists for improvement in the Procurement Law Division, ATCOM, final legal review process. The difference between the medians of ATCOM and the other inventory control points, is 6 days. Therefore, 6 days is the statistically most appropriate single estimate, with a 90-percent confidence level ranging between 4 and 10 days.

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Internal Controls. Reduces administrative lead time, which could result in potential cost avoidance by reducing inventory levels.	Funds put to better use of at least \$2.2 million of stock fund and procurement fund resources.
2.	Program Results. Improves the oversight of the performance of the Procurement Law Division and helps reduce administrative lead time.	Funds put to better use. Amount included in Recommendation 1.

* A one-time \$2.2 million (6 days x \$2.9 million per day / 8 days of inventory safety levels) can be put to better use by reducing inventory needed to cover the 6 days of administrative lead time. The cost avoidance may be spread over more than 1 year as administrative lead time is reduced and inventory requirements are adjusted correspondingly.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Headquarters, Army Materiel Command, Alexandria, VA
Aviation and Troop Command, St. Louis, MO
Armament, Munitions, and Chemical Command, Rock Island, IL
Communications-Electronics Command, Fort Monmouth, NJ
Missile Command, Redstone Arsenal, Huntsville, AL
Tank-Automotive Command, Warren, MI
Auditor General, Department of the Army, Washington, DC

Appendix E. Report Distribution

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